

Message Text

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ACTION EB-07

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FM AMEMBASSY WELLINGTON

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TAGS: EALR, ECON, NZ

SUBJECT: QUARTERLY PREDICTIONS ON NATIONAL INCOME AND EXPENDITURE

BEGIN LIMITED OFFICIAL USE

1. THE NEW ZEALAND INSTITUTE OF ECONOMIC RESEARCH (NZIER) HAS JUST MADE AVAILABLE TO THE EMBASSY ITS PRE-PUBLICATION RELEASE OF ITS QUARTERLY PREDICTIONS. THE INFORMATION, WHICH IS SUBJECT TO REVISION, IS NOT FOR PUBLICATION.

2. HIGHLIGHTS OF THE LATEST PREDICTIONS FOLLOW:

A. FALLING REAL DOMESTIC PRODUCT, INFLATION AND A BALANCE OF PAYMENTS DEFICIT ARE STILL PROBLEMS. THIS SUGGESTS A STRUCTURAL RATHER THAN CYCLICAL DIFFICULTY. EXPORT RECEIPTS ARE RECOVERING STRONGLY BUT IF THIS RAISES DOMESTIC CONSUMPTION TOO QUICKLY THIS WOULD PREVENT A MORE ACCEPTABLE TRADE BALANCE. PRESENT INFLATION IS NOT CAUSED BY DEMAND BUT EXPANSION OF DEMAND COULD EXACERBATE INFLATION PROBLEM. EXCESSIVE DEMAND RESTRAINT COULD ADD TO RECESSIONARY INFLUENCES CAUSING UNEMPLOYMENT, A
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FURTHER REDUCTION IN LIVING STANDARDS, AND DETERIORATION

IN ALREADY UNATTRACTIVE INVESTMENT ENVIRONMENT.

B. THE LARGE CUT IN 1976 BUDGET IS LIKELY TO HAVE
DEPRESSING EFFECT ON ECONOMY. HOW THE LARGE BUDGET
DEFICIT IS FINANCED (EXTERNALLY OR VIA RESERVE BANK)
WILL AFFECT DEGREE OF DEPRESSING EFFECT.

C. GOVERNMENT WAGE FREEZE POLICY WILL AFFECT COST
INFLATION AND REDUCE REAL SALARY AND WAGE INCOME, HENCE
CONSUMPTION DEMAND AND IMPORTS. TOTAL WAGES AND SALARIES
ARE PREDICTED TO INCREASE BY 11 PER CENT TO \$7,225
MILLION IN THE YEAR ENDING MARCH 1977. PRICE AND RENT
FREEZE WILL DELAY PRICE INCREASES THIS YEAR BUT IS
UNLIKELY TO HAVE ANY USEFUL LONG TERM IMPACT.

D. INFLATION IS EXPECTED TO BE 14 PER CENT IN YEAR
ENDING MARCH 1977. A MAJOR COST INFLATION DETERMINANT IS THE
RATE OF IMPORT PRICE INCREASES. NZIER FORECASTS A 17
PER CENT IMPORT PRICE INCREASE FOR MARCH 1977 YEAR.

E. RISING PRIMARY EXPORT PRICES, THOUGH BOOSTING
EARNINGS, IS COUNTERED BY A REDUCTION IN THE RATE OF
INCREASE IN THE EXPORT VOLUME DUE TO REDUCTIONS IN
SLAUGHTERINGS. SO RATE OF INCREASE IN FARMING INCOME
WILL BE LESS. MANUFACTURED EXPORTS ARE EXPECTED TO
CONTINUE THEIR RAPID RATE OF INCREASE, DUE TO
PRICE AND VOLUME INCREASES. THIS AND LOWER WAGE
INFLATION LEADS TO NZIER FORECASTING A 16 PER CENT
INCREASE IN COMPANY INCOMES IN THE MARCH 1977 YEAR.

F. PRIVATE CONSUMPTION IS EXPECTED TO RISE BY
9 1/2 PER CENT BUT IN REAL TERMS TO FALL BY 4 PER
CENT. PRIVATE CAPITAL FORMATION GROWTH THOUGH MORE UNCERTAIN
IS FORECAST TO INCREASE BY 6 PER CENT (TO \$1,905
MILLION), OR IN REAL TERMS TO DECLINE. GDP IS
FORECAST TO FALL BY 1 1/2 PER CENT IN THE YEAR ENDING MARCH
1977. THIS FOLLOWS A ONE PER CENT DECLINE FOR THE
MARCH 1976 YEAR.

G. GNP FORECAST TO INCREASE 13 PER CENT TO \$11,830
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MILLION.

H. THE BALANCE OF PAYMENTS DEFICIT FOR THE YEAR
THROUGH MARCH 1977 IS FORECAST TO DECLINE TO \$535 MILLION
(VS. AN ESTIMATED \$1,115 MILLION FOR THE MARCH 1976 YEAR).

I. PRIVATE INCOME IS FORECAST TO INCREASE BY 12 1/2
PER CENT BUT PERSONAL DISPOSABLE INCOME IS

TO INCREASE BY ONLY 11 1/2 PER CENT. END LIMITED OFFICIAL USE

3. BEGIN UNCLASSIFIED

3. COMMENT: THE PRIME MINISTER, IN A RADIO INTERVIEW ON SEPTEMBER 11 WEEKEND, ALLOWED HIMSELF SOME OPTIMISTIC COMMENTS ON HOW THE ECONOMY WAS "COMING RIGHT". HE SAID ACCORDING TO FIGURES AVAILABLE TO HIM INFLATION WOULD CONTINUE TO FALL THROUGH THE REST OF THIS YEAR, THAT UNEMPLOYMENT WOULD NOT GO OVER 14,000 (VS. MUCH HIGHER PREDICTIONS BY FORECASTERS EVEN SEVERAL WEEKS AGO), THE VOLUME OF IMPORTS WOULD CONTINUE TO DECLINE AND THAT THERE WAS SOME EVIDENCE THAT THE GENERAL FIRMING OF EXPORT PRICES FOR NZ'S AGRICULTURAL PRODUCTS MIGHT BE A LONG-TERM IMPROVEMENT. HE NOTED THAT GOVERNMENT EXPENDITURES HAD BEEN CUT DRASTICALLY. BY THE END OF 1977, HE SAID, THE RESULTS OF THE MEASURES BEING TAKEN WOULD BE EVIDENT. BUT HE CONDITIONED THIS ON THE CONTINUANCE OF THE WAGE AND PRICE FREEZE. HE REFUSED TO CONFIRM THERE WOULD BE NO MORE ECONOMIC MEASURES.
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